

# The Church of England Pensions Board

We provide retirement  
services set by the  
Church of England  
for those who have  
served or worked for  
the Church

Review  
2015



## Introduction from the Chairman

In 2015 we took decisions to assure the long-term finances of the CHARM rental housing offer and announced, alongside other National Church investing bodies, an important policy shaping the way we invest our funds to assist in a transition to a low carbon economy.

Around 20-25% of retiring clergy rely on the CHARM rental scheme to provide them with housing in retirement having not been able to make independent provision. We had previously announced changes to the way people accessed the offer and the way rents were calculated. The wider Church contributes around £4.5m to the annual running costs of this scheme.

During 2014 we started to look at the long-term financing of CHARM, this reached a conclusion in 2015 with the Board issuing a £100m Bond, of which £70m was drawn down immediately. This was used to purchase almost 200 houses from the Church Commissioners, which they had financed and were already rented to retired clergy, and to repay other existing, shorter-term, borrowings.

Together with the other National Church Investors, we decided we should be at the forefront of institutional investors addressing the challenge of climate change, subject to our fiduciary duties. The EIAG provided us with very well considered advice in May 2015, setting out the theology of mankind's responsibility for stewardship of the planet, and concluding with policy advice and proposals for action. The Board has adopted this advice which was welcomed by the General Synod in the summer. The policy combined structured engagement with companies that contribute significantly to greenhouse gas emissions, with divestment from companies heavily involved in mining for thermal coal and extracting oil from tar sands, where engagement was unlikely to yield any impact.

On the pension front, we concluded the valuation for the pension scheme for the lay staff of the National Church Institutions.

At the end of the year we said farewell to a number of long-serving members of the Board who either stepped down or did not stand for re-election. These were Clive Hawkins, who chaired the Investment Committee for many years, Graham Campbell, Simon Baynes, John Ferguson and the Revd Canon Ian Gooding. We are grateful for their service.

In 2016, we will be looking at the valuation of the largest of our pension schemes, the Church of England Funded Pensions Scheme providing retirement benefits for clergy and their dependants. We are working closely with the dioceses and other stakeholders in an open and transparent manner on this to reach funding solutions that protect beneficiaries' interests while taking account of the concerns of those who pay for it.

**Jonathan Spencer**  
Chairman

**We provide retirement services set by the Church of England for those who have worked for or served the Church including ...**



Administering the pension provision for around 35,000 people in more than 300 Church of England based employers



Providing retirement housing to around 2,500 retired clergy households through a variety of options

# RETIREMENT HOUSING

**Through our various housing options we assist around 2,500 retired clergy households and their dependants**

The **CHARM** (Church's Housing Assistance for the Retired Ministry) scheme is designed to assist retiring clergy who have not been able to make their own provision to find somewhere to live in retirement. The scheme includes shared ownership and rental options.

Around 100 clergy households are assisted through the **SHARED OWNERSHIP** option.

In 2015 we assisted an additional 10 households at a total cost of £1 million.



Properties are bought in partnership with the retiring household, with the Board contributing a maximum of 75% of the property cost; rent is paid on the share that we own. The household also pay a service charge which reflects the likely cost of maintaining and insuring the property.

Additional shares of the property can be bought, and it is not unusual for the retired household to acquire 100% of the interest in the property should they wish to do so.

The **RENTAL PROPERTY** option is the core CHARM offer and assists around 1,200 retired clergy households and their dependants.

Around a quarter of retiring clergy turn to us when they retire for assistance with their housing. With this option, subject to meeting eligibility criteria, they can choose a property from our portfolio across the country up to five years before they intend to retire and "reserve" it for their retirement. An affordable rent is paid on the property.

In 2015 we bought an additional 60 properties to add to the portfolio at a cost of £10.6 million. We also acquired the economic interest in a further 196 properties from the Church Commissioners.





The **MORTGAGE** option under CHARM was closed in 2008. At the end of 2015, 848 loans remained outstanding.

The CHARM scheme is subsidised by the wider Church through Vote 5 of the Archbishops' Council's budget. The total grant for 2015 was £4.2 million.

We have been providing **SUPPORTED HOUSING** for those retired clergy and their dependants who wish to live as independently as possible with access to a range of comprehensive support services, for over sixty years. The seven supported housing communities provide somewhere to live where the liturgical and spiritual life of the Church of England is central.

A **CARE HOME** offering nursing care and specialist dementia care facilities is situated in Hindhead, Surrey.

Residents in the communities pay rent and a service charge, which can be subsidised by the Board.

During 2015, we continued to provide places for around 250 people.

The Board contributed £0.9 million to the running costs of the communities and the care home in 2015.



**Information on the CHARM scheme, eligibility and access to the various options is available from [housing@churchofengland.org](mailto:housing@churchofengland.org) or on [www.cepb.org.uk](http://www.cepb.org.uk).**

# PENSION FUNDS

**We assist more than 300 employers, across the Church of England, with the pension provision for their staff. Of the 35,000 people covered, the majority are members of the Church of England's clergy, but around one-third work in diocesan offices, in cathedrals and parish offices, and in Church House.**



The **CHURCH OF ENGLAND FUNDED PENSIONS SCHEME (CEFPS)** provides pensions and associated benefits for clergy and others in the stipendiary ministry for service from 1 January 1998; benefits arising for service prior to that date are wholly funded by the Church Commissioners.

The benefits structure is linked to the National Minimum Stipend (NMS). The length of service required to achieve full benefits and the proportion of NMS changed on 1 January 2011. **Members joining after that date need to complete 41.5 years of service to be entitled to a pension of one half of NMS. A lump sum of three times the basic pension is payable in addition to the pension.**

The scheme rules provide that increases are at the rate of the change in the Retail Prices Index (RPI) up to 5% for benefits for service prior to 1 January 2008 and RPI up to 3.5% for benefits from service from 1 January 2008 onwards.

**Pensions in payment on 1 April 2015 increased by 2.3% and those in payment on 1 April 2016 increased by 0.8%.**

The last valuation of the scheme was carried out as at 31 December 2012, where the difference between the scheme's assets and its liabilities was a deficit of £293 million. The Board set the period over which the identified deficit is targeted to be eliminated at 12 years from 1 January 2014.

**The valuation as at 31 December 2015 will be completed during the course of 2016.**





The **CHURCH WORKERS PENSION FUND (CWPF)** operates as a centralised occupational pension scheme for over 300 employers connected with the ministry and mission of the Church of England. These include diocesan offices, cathedrals, mission agencies and parishes.



The fund has two sections – a defined benefits section and a “pension builder” section. Under the defined benefits scheme, employers have some flexibility as to the benefit structure they provide; whereas under the pensions builder, the level of contributions is chosen by the employer. These contributions provide an amount of pension payable at the member’s normal pension age. Bonuses are added from time to time depending on the investment return earned by the fund.

The last valuation of the scheme was carried out as at 31 December 2013, where the difference between the scheme’s assets and its liabilities, for the defined benefit section was a deficit of £12.9 million; the pension builder had a small surplus.

The **CHURCH ADMINISTRATORS PENSION FUND (CAPF)** provides pensions for the staff of the National Church Institutions.

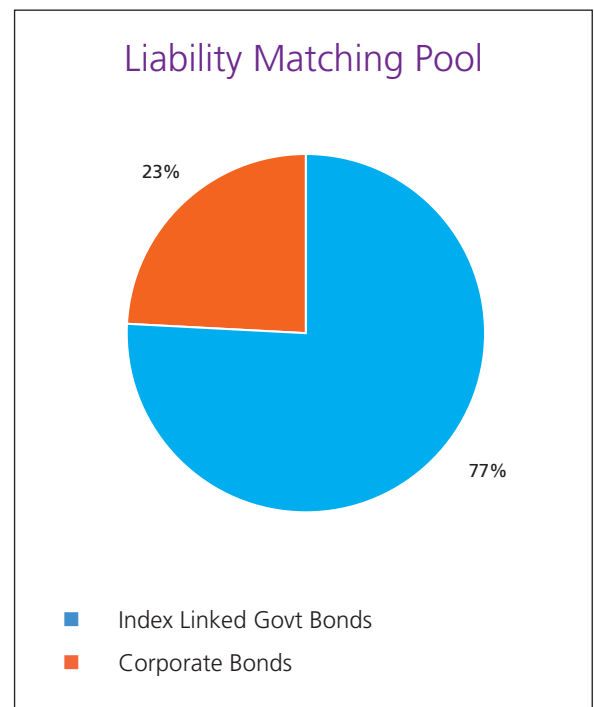
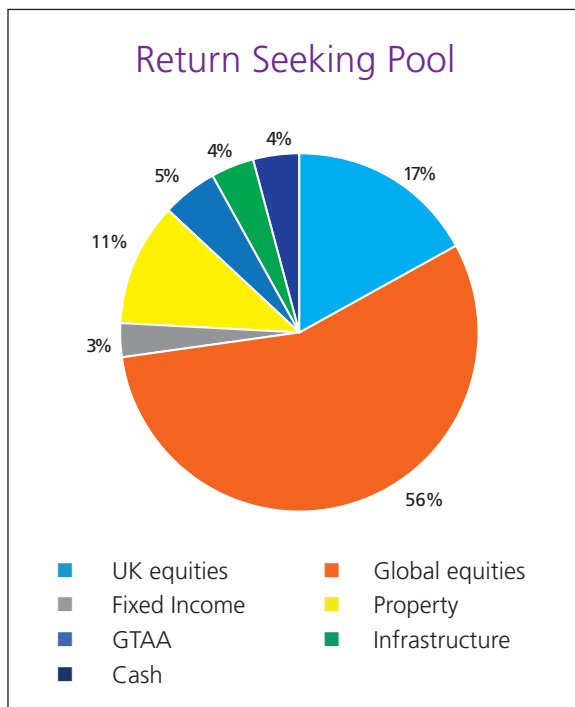
The fund has two sections – a defined benefits section which closed to new entrants in 2006, and a defined contributions section. Since 2010, the defined benefits section has been on a career average earnings basis for future service. The defined contributions scheme is non-contributory with the National Church Institutions making age-related contributions.

Pension increases for service from 1997 are linked to the changes in the Retail Price Index.

The last valuation of the scheme was carried out as at 31 December 2014, where the difference between the scheme’s assets and its liabilities, for the defined benefit section was a deficit of £25.1 million. The Board set the period over which the identified deficit is targeted to be eliminated at 10.5 years from 1 January 2015.

# INVESTMENTS

The assets of the pension schemes are pooled for investment purposes to allow the smaller schemes to access economies of scale and investment opportunities which might not be available to them otherwise. We manage funds in excess of £1.7 billion.



For the pension schemes, we operate a **"Return Seeking Pool"**, comprising equities, property unit trusts, infrastructure, emerging market sovereign debt, Global Tactical Asset Allocation (GTAA) funds, and cash; and a **"Liability Matching Pool"** consisting of UK Government bonds and corporate bonds.

The **top five equity holdings** in the Return Seeking Pool are

HSBC Holdings  
 Royal Dutch Shell "A" and "B"  
 AstraZeneca  
 GlaxoSmithKlein  
 Vodafone Group

**Managing risk** in the investment portfolio has been a major feature throughout 2015 and we have taken several steps to mitigate risk.





This has taken the form of buying an insurance contract from Prudential to secure 70% of the CWPF's defined benefit section's pensions in payment, and by switching part of the assets held by the Clergy Funded Pension Scheme from the Return Seeking Pool to the Liability Matching Pool.

Additionally, we have been developing liability-driven investment frameworks for each of the pension schemes. These frameworks look at the asset and liability sides of a pension scheme together, and work towards ensuring any mismatch is intentional and appropriately sized, taking into consideration the timing and size of benefit payments, inflation and interest rates.

We also continued our work on debt investment for the Return Seeking Pool and have agreed an allocation of £80m to private loans to smaller US companies. The asset class had all the qualities looked for as we continue to develop the asset allocation of the pool, including strong returns which are not correlated to equities. This will be made in 2016.

**The two pools returned 2% overall in 2015.** This was a lower return than in previous years, but returns remain strong over the longer term, as can be seen

	1 year % pa	3 years % pa	5 years % pa	10 years % pa
<i>Total assets:</i>	2.0	9.1	7.2	5.4
<i>Return Seeking Pool</i>	2.5	9.7	7.3	5.2
<i>Liability Matching Pool</i>	-0.3	5.8	8.0	7.5
<i>Comparator: RPI+3%</i>	4.2	4.8	5.7	6.0

Our **charitable funds' investments** are currently with the CBF Investment Fund and the CBF Deposit Fund (CBFIF and CBFDF, managed by CCLA), the Charities Property Fund (CPF, managed by Savills) and the Property Income Trust for Charities (PITCH, managed by Mayfair Capital).

The CBFIF is a balanced fund that invests across a range of asset classes, including equities, bonds and property. The CBFDF is a cash deposit fund. The CPF and PITCH funds invest wholly in UK property, principally industrial, office and retail property. All four funds are structured as charity common investment funds, which allow investing charities to benefit from their statutory exemption from stamp duty on UK investments.

# ETHICAL INVESTMENT

**Ethical investment considerations form an integral part of the Church of England's witness and mission. Through its ethical investment policy, the Pensions Board seeks a constructive engagement with the corporate world in order that responsible business practices and high standards of corporate behaviour are encouraged and supported.**



We are supportive of companies that seek to develop their businesses successfully and sustainably in the interests of shareholders. We expect companies in which we invest to demonstrate sustainable environmental practice, fair treatment of customers and suppliers, responsible employment practices, conscientiousness with regard to human rights, sensitivity towards the communities in which they operate and best corporate governance practice.

In 2015, we decided that we should be at the forefront of institutional investors addressing the challenge of climate change. Our advisers, the Ethical Investment Group (EIAG), provided us with clear advice and proposals for action. The policy combined structured engagement with companies that contribute significantly to greenhouse gas emissions, with divestment from companies heavily involved in mining for thermal coal and extracting oil from tar sands, where engagement was unlikely to yield any impact.

We do not wish directly to profit from, or provide capital to, activities that are materially inconsistent with Christian values, and are alert of the danger of undermining the credibility, effectiveness and unity of the Church's witness were they to do so. A range of investment exclusions is therefore maintained.

The EIAG may, exceptionally, recommend exclusion from investment in any individual company in any line of business on ethical grounds – normally if, after sustained dialogue, the company does not respond positively to concerns about its practices. We – and the EIAG – expect a recognition of responsibility and a resolve to improve, rather than perfection.

# TRUSTEES

The members of the Pensions Board represent a balance of skills and expertise and are drawn from a wide range of constituencies. The majority of members serve on at least one or more of the Board's Committees.



## Appointed Members

Dr Jonathan Spencer CB (Chairman)  
Jeremy Clack FIA  
Canon David Froude ACIB  
Roger Mountford

## Member Nominated Trustees

The Revd Fr Paul Benfield  
The Rt Revd Richard Blackburn\*  
Ian Boothroyd  
The Revd Paul Boughton ACA  
The Revd Nigel Bourne  
Ian Clark  
John Ferguson\*  
The Revd Canon Ian Gooding\*  
Maggie Rodger\*\*  
The Revd Canon David Stanton\*\*  
The Rt Revd Alan Wilson†

## Elected by the House of Laity

Simon Baynes\*  
Jane Bisson  
Roger Boulton\*\*  
Dr Graham Campbell\*  
Canon Nicolette Fisher  
Alan Fletcher FCII  
Canon Emma Osborne\*\*  
Brian Wilson FIA

## Employer Nominated Trustees

Clive Hawkins\*  
Richard Hubbard\*\*  
Canon Sandra Newton

\*Resigned or left the Board during or at end of 2015

\*\*Joined the Board on 1 January 2016

†Joined the Board during 2015

# VISION

We will deliver a professional, high quality and efficient service to our customers, respecting their needs and the needs of those who provide us with the money to do this

## STRATEGIC OBJECTIVES

Manage the pension schemes efficiently and effectively in accordance with the scheme rules and apply an investment strategy that maximises the Board's ability to ensure all liabilities are met as they fall due

Provide quality retirement housing while demonstrating good value for money

Achieve a sustainable return on the Board's investment funds, acting in accordance with the National Church Institutions' ethical policies

Understand our customers' needs and expectations and use this information to improve delivery of our services

Maintain our ability to comply with all regulatory and legal requirements

Provide value for money to the Church with the resources we are given to run the business

Create a working environment which motivates and develops our people to give of their best and take pride in working for the Church of England Pensions Board

Annual Reports and Financial Statements for our charitable funds and for the pension funds for 2015 can be obtained from our website [www.cepb.org.uk](http://www.cepb.org.uk)

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